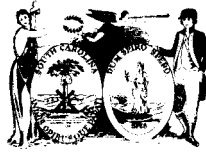


State of South Carolina



Office of the State Auditor

1401 MAIN STREET, SUITE 1200
COLUMBIA, S.C. 29201

THOMAS L. WAGNER, JR., CPA
STATE AUDITOR

(803) 253-4160
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June 22, 2005

Mr. Craig G. DeKany, Reimbursement Manager
HCR – Manor Care
Post Office Box 10086
Toledo, Ohio 43699-0086

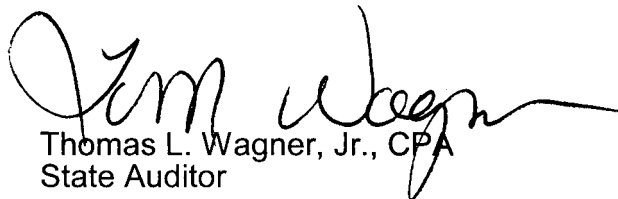
Re: AC# 3-MCC-J1 – Manor Care of Columbia, Inc.
d/b/a Heartland of Columbia Rehabilitation Center

Dear Mr. DeKany:

The accompanying report has been prepared by our office based on your Medicaid Financial and Statistical Report submitted to the Department of Health and Human Services for the cost report period October 1, 2000 through September 30, 2001. That report was used to set the rate covering the contract period beginning January 1, 2003.

We are recommending that the Department of Health and Human Services certify an accounts receivable to recover amounts due as a result of the rate change shown on Exhibit A. You will be notified of repayment terms by that Agency.

If you take exception to this report in any manner, you have the right to appeal in accordance with the Code of Laws of South Carolina, 1976 as amended, Title 44, and Department of Health and Human Services Regulation R.126-150, and you must respond in writing within thirty (30) calendar days of the date of this letter. This written response must address the specific items in the report being appealed, and must be directed to the Appeals and Hearings, Department of Health and Human Services, Post Office Box 8206, Columbia, South Carolina 29202-8206. Any correspondence should include the control number appearing on Exhibit A of this report.


Thomas L. Wagner, Jr., CPA
State Auditor

TLWjr/ksg

cc: Ms. Brenda L. Hyleman
Mr. Jeff Saxon
Ms. Kathleen C. Snider

**MANOR CARE OF COLUMBIA, INC.
D/B/A HEARTLAND OF COLUMBIA
REHABILITATION CENTER**

COLUMBIA, SOUTH CAROLINA

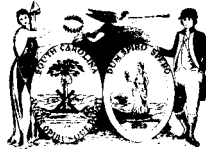
**CONTRACT PERIOD
BEGINNING JANUARY 1, 2003
AC# 3-MCC-J1**

**AGREED-UPON PROCEDURES REPORT
ON CONTRACT
FOR
PURCHASE OF NURSING CARE SERVICES
WITH
STATE OF SOUTH CAROLINA
DEPARTMENT OF HEALTH AND HUMAN SERVICES**

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

May 20, 2005

Department of Health and Human Services
State of South Carolina
Columbia, South Carolina

We have performed the procedures enumerated below, which were agreed to by the South Carolina Department of Health and Human Services, solely to compute the rate change and related adjusted reimbursement rate to be used by the Department in determining the reimbursement settlement with Manor Care of Columbia, Inc. d/b/a Heartland of Columbia Rehabilitation Center, for the contract period beginning January 1, 2003, and for the twelve month cost report period ended September 30, 2001, as set forth in the accompanying schedules. The management of Manor Care of Columbia, Inc. d/b/a Heartland of Columbia Rehabilitation Center is responsible for the Financial and Statistical Report for Nursing Homes and supporting accounting and statistical records. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the South Carolina Department of Health and Human Services. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

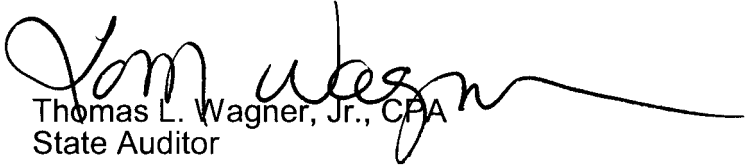
The procedures and the associated findings are as follows:

1. We selected costs or areas based on our analytical procedures applied to the reimbursable Medicaid program costs as shown on the Financial and Statistical Report for Nursing Homes, as filed by Manor Care of Columbia, Inc. d/b/a Heartland of Columbia Rehabilitation Center, to determine if these costs were allowable as defined by the State Plan for Medicaid reimbursement purposes and supported by accounting and statistical records maintained by the Provider. Our findings as a result of these procedures are presented in the Adjustment Report, Summary of Costs and Total Patient Days, and Cost of Capital Reimbursement Analysis sections of this report.
2. We recomputed the Computation of Reimbursement Rate using the adjusted costs and calculated the rate change in accordance with the provisions of the contract between the South Carolina Department of Health and Human Services and Manor Care of Columbia, Inc. d/b/a Heartland of Columbia Rehabilitation Center dated as of October 1, 2001 as amended. Our findings as a result of these procedures are presented in the Computation of Rate Change and Computation of Adjusted Reimbursement Rate sections of this report.

Department of Health and Human Services
State of South Carolina
May 20, 2005

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on the financial statements or a part thereof. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the South Carolina Department of Health and Human Services and is not intended to be and should not be used by anyone other than the specified party.


Thomas L. Wagner, Jr., CPA
State Auditor

HEARTLAND OF COLUMBIA REHABILITATION CENTER

Computation of Rate Change
For the Contract Period
Beginning January 1, 2003
AC# 3-MCC-J1

	01/01/03- <u>09/30/03</u>
Interim Reimbursement Rate (1)	\$105.72
Adjusted Reimbursement Rate	<u>100.86</u>
Decrease in Reimbursement Rate	\$ <u><u>4.86</u></u>

- (1) Interim reimbursement rate from the South Carolina Medicaid Management Information System (MMIS) Provider Rate Listing dated December 6, 2004

HEARTLAND OF COLUMBIA REHABILITATION CENTER
 Computation of Adjusted Reimbursement Rate
 For the Contract Period January 1, 2003 Through September 30, 2003
 AC# 3-MCC-J1

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$48.74	\$58.50	
Dietary		10.53	11.21	
Laundry/Housekeeping/Maintenance		<u>6.18</u>	<u>9.67</u>	
Subtotal	\$ <u>5.56</u>	65.45	79.38	\$ 65.45
Administration & Medical Records	\$ <u>-</u>	<u>18.94</u>	<u>12.77</u>	<u>12.77</u>
Subtotal		84.39	<u>\$92.15</u>	78.22
<u>Costs Not Subject to Standards:</u>				
Utilities		2.70		2.70
Special Services		.23		.23
Medical Supplies & Oxygen		2.90		2.90
Taxes and Insurance		2.82		2.82
Legal Fees		<u>.08</u>		<u>.08</u>
TOTAL		<u>\$93.12</u>		86.95
Inflation Factor (3.70%)				3.22
Cost of Capital				12.08
Cost of Capital Limitation				(3.14)
Profit Incentive (Maximum 3.5% of Allowable Cost)				-
Cost Incentive				5.56
Effect of \$1.75 Cap on Cost/Profit Incentives				<u>(3.81)</u>
ADJUSTED REIMBURSEMENT RATE				<u>\$100.86</u>

HEARTLAND OF COLUMBIA REHABILITATION CENTER
Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 2001
AC# 3-MCC-J1

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	Adjustments		<u>Adjusted Totals</u>
		<u>Debit</u>	<u>Credit</u>	
General Services	\$2,276,531	\$49,160 (3)	\$ 48,332 (6) 3,528 (6) 2,576 (9)	\$2,271,255
Dietary	491,775	4,537 (3)	5,214 (6) 559 (9)	490,539
Laundry	57,495	-	694 (6)	56,801
Housekeeping	143,585	2,460 (7)	2,501 (6) 3,267 (8)	140,277
Maintenance	91,850	1,528 (7)	468 (6) 2,049 (8)	90,861
Administration & Medical Records	880,520	2,165 (5) 1,818 (6) 4,990 (7)	726 (6) 5,385 (8) 531 (9)	882,851
Utilities	126,530	2,095 (7)	2,829 (8)	125,796
Special Services	10,577	8,972 (9)	9,053 (6)	10,496
Medical Supplies & Oxygen	155,857	12,555 (3)	7,523 (5) 265 (6) 25,357 (9)	135,267
Taxes and Insurance	306,388	4,790 (7)	176,756 (4) 2,778 (8)	131,644
Legal Fees	3,821	25 (7)	27 (8)	3,819

HEARTLAND OF COLUMBIA REHABILITATION CENTER
Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 2001
AC# 3-MCC-J1

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	Adjustments		Adjusted <u>Totals</u>
		<u>Debit</u>	<u>Credit</u>	
Cost of Capital	396,851	5,939 (7) 214,328 (10)	12,011 (1) 35,730 (2) 6,327 (8)	563,050
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Subtotal	4,941,780	315,362	354,486	4,902,656
Ancillary	260,162	5,358 (5)	-	265,520
Nonallowable	477,522	12,011 (1) 35,730 (2) 176,756 (4) 68,963 (6) 22,662 (8) 20,051 (9)	21,827 (7) 214,328 (10)	577,540
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Operating Expenses	<u>\$5,679,464</u>	<u>\$656,893</u>	<u>\$590,641</u>	<u>\$5,745,716</u>
Total Patient Days	<u>46,253</u>	<u>350</u> (11)	<u>-</u>	<u>46,603</u>
Total Beds	<u>133</u>			

HEARTLAND OF COLUMBIA REHABILITATION CENTER
Adjustment Report
Cost Report Period Ended September 30, 2001
AC# 3-MCC-J1

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Fixed Assets	\$233,452	
	Other Equity	296,236	
	Nonallowable	12,011	
	Accumulated Depreciation		\$529,688
	Cost of Capital		12,011
	To adjust fixed assets and related depreciation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
2	Nonallowable	35,730	
	Cost of Capital		35,730
	To adjust depreciation expense to comply with capital cost policy State Plan, Attachment 4.19D		
3	Nursing	49,160	
	Dietary	4,537	
	Medical Supplies	12,555	
	Accounts Payable		66,252
	To properly charge expense applicable to the current period HIM-15-1, Section 2302.1		
4	Nonallowable	176,756	
	Taxes and Insurance		176,756
	To adjust liability insurance expense HIM-15-1, Section 2304		
5	Medical Records	2,165	
	Ancillary	5,358	
	Medical Supplies		7,523
	To reclassify expense to the proper cost center DH&HS Expense Crosswalk		

HEARTLAND OF COLUMBIA REHABILITATION CENTER
Adjustment Report
Cost Report Period Ended September 30, 2001
AC# 3-MCC-J1

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
6	Administration	1,818	
	Nonallowable	68,963	
	Nursing		48,332
	Restorative		3,528
	Dietary		5,214
	Laundry		694
	Housekeeping		2,501
	Maintenance		468
	Medical Records		726
	Medical Supplies		265
	Special Services		9,053
	To adjust fringe benefits and related allocation		
	HIM-15-1, Section 2304		
	State Plan, Attachment 4.19D		
7	Housekeeping	2,460	
	Maintenance	1,528	
	Administration	4,990	
	Legal	25	
	Utilities	2,095	
	Taxes and Insurance	4,790	
	Cost of Capital	5,939	
	Nonallowable		21,827
	To reverse DH&HS adjustment to remove indirect cost applicable to a non-reimbursable cost center		
	HIM-15-1, Section 2102.3		
	State Plan, Attachment 4.19D		
8	Nonallowable	22,662	
	Housekeeping		3,267
	Maintenance		2,049
	Administration		5,385
	Legal		27
	Utilities		2,829
	Taxes and Insurance		2,778
	Cost of Capital		6,327
	To remove indirect cost applicable to a non-reimbursable cost center		
	HIM-15-1, Section 2102.3		
	State Plan, Attachment 4.19D		

HEARTLAND OF COLUMBIA REHABILITATION CENTER
Adjustment Report
Cost Report Period Ended September 30, 2001
AC# 3-MCC-J1

ADJUSTMENT			
<u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
9	Special Services	8,972	
	Nonallowable	20,051	
	Nursing		2,576
	Dietary		559
	Administration		531
	Medical Supplies		25,357
	To remove special (ancillary) services reimbursed by Medicare State Plan, Attachment 4.19D		
10	Cost of Capital	214,328	
	Nonallowable		214,328
	To adjust capital return State Plan, Attachment 4.19D		
11	<u>Memo Adjustment:</u> To increase total patient days by 350 to 46,603.		
	TOTAL ADJUSTMENTS	\$1,186,581	\$1,186,581

Due to the nature of compliance reporting, adjustment descriptions and references contained in the preceding Adjustment Report are provided for general guidance only and are not intended to be all-inclusive.

HEARTLAND OF COLUMBIA REHABILITATION CENTER
Cost of Capital Reimbursement Analysis
For the Cost Report Period Ended September 30, 2001
AC# 3-MCC-J1

Original Asset Cost (Per Bed)	\$ 15,618	\$ 15,618	
Inflation Adjustment	<u>2.4607</u>	<u>2.4607</u>	
Deemed Asset Value (Per Bed)	38,431	38,431	
Number of Beds	<u>119</u>	<u>14</u>	
Deemed Asset Value	4,573,289	538,034	
Improvements Since 1981	3,781,707	14,389	
Accumulated Depreciation at 9/30/01	<u>(3,339,564)</u>	<u>(100,259)</u>	
Deemed Depreciated Value	5,015,432	452,164	
Market Rate of Return	<u>.0577</u>	<u>.0577</u>	
Total Annual Return	289,390	26,090	
Return Applicable to Non-Reimbursable Cost Centers	(5,981)	(539)	
Allocation of Interest to Non-Reimbursable Cost Centers	<u>840</u>	<u>125</u>	
Allowable Annual Return	284,249	25,676	
Depreciation Expense	233,179	26,416	
Amortization Expense	-	-	
Capital Related Income Offsets	(128)	(15)	
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>(5,657)</u>	<u>(670)</u>	<u>Total</u>
Allowable Cost of Capital Expense	511,643	51,407	\$563,050
Total Patient Days (Minimum 96% Occupancy)	<u>41,698</u>	<u>4,905</u>	<u>46,603</u>
Cost of Capital Per Diem	\$ <u>12.27</u>	\$ <u>10.48</u>	\$ <u>12.08</u>

HEARTLAND OF COLUMBIA REHABILITATION CENTER
 Cost of Capital Reimbursement Analysis
 For the Cost Report Period Ended September 30, 2001
 AC# 3-MCC-J1

6/30/89 Cost of Capital and Return on Equity Capital Per Diem Reimbursement	\$4.77	\$ N/A
Adjustment for Maximum Increase	<u>3.99</u>	<u>N/A</u>
Maximum Cost of Capital Per Diem	<u>\$8.76</u>	<u>\$10.48</u>
Reimbursable Cost of Capital Per Diem	\$ 8.94	
Cost of Capital Per Diem	<u>12.08</u>	
Cost of Capital Per Diem Limitation	<u>\$(3.14)</u>	

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